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EXHIBIT

DATE 1.30.07

HB 270

Memorandum

TO: Chairman Bob Lake and Members of House Taxation Committee

FROM: Barb Wagner, Tax Policy Analyst

DATE: January 23, 2007

SUBJECT: Fiscal impact of HB270 by taxpayer class and income

You requested information on the fiscal impact of HB270 by taxpayer class and income level. As you know, HB270 would create two refundable tax credits. The first credit would be equal to 50% of the medical expenses paid by an individual taxpayer; the second credit would be equal to 50% of the medical insurance premiums paid by an employer for employees, employees' spouses, and employees' dependents. Both credits can be claimed even if the taxpayer has no tax liability.

While preparing this analysis, an error was found in the program that calculated the estimates included in the official fiscal note for HB270. This error resulted in the fiscal impact of HB270 being underestimated by 0.18%. The revised fiscal impact of HB270 is (\$83,960,753) in FY2008, (\$176,439,204) in FY2009, (\$178,860,217) in FY2010, and (\$181,305,937) in FY2011. The official fiscal note for HB270 will not be revised until HB270 is amended. Therefore, the totals presented in this memo will be slightly different than those presented in the official fiscal note.

Fiscal Impact by Section in HB270

Table 1 presents the fiscal impact of HB270 broken down by section by fiscal year. As Table 1 clearly shows, the credit proposed in Sections 2 and 3 costs significantly more than the credit proposed in Section 1.

Table 1: Fiscal Impact of HB270 on General Fund Revenues by Fiscal Year				
	FY2008	FY2009	FY2010	FY2011
Section 1 – Credit for Individuals	(25,056,719)	(52,655,406)	(53,377,918)	(54,107,803)
Section 2 and 3 – Credit for Employers	(58,904,034)	(123,783,798)	(125,482,299)	(127,198,133)
Total Cost	(83,960,753)	(176,439,204)	(178,860,217)	(181,305,937)

SECTION 1 CREDIT:

This section provides information on the type of taxpayers that would benefit from the credit proposed in Section 1 of HB270. All of the estimates presented use 2005

taxpayer data as if the proposed legislation was in effect during the 2005 tax year. Under these assumptions, 100,315 households would have benefited from the credit proposed in Section 1 of HB270. Full-year residents of Montana would have received 95.6% of the tax benefit.

Fiscal Impact of Section 1 Credit by Filing Status

Table 2 shows the distribution of the proposed tax credit by filing status. The term "cost of credit" is the total credit taken minus the offset, which arises from adding medical expense deductions back into taxable income (see assumption 3 of fiscal note). The last two lines of Table 2 show each filing status as a percent of cost and as a percent of taxpayers taking the proposed credit. For example, households with taxpayers that are married and file jointly would receive 55.9% of the total credit, but comprise 33.4% of the total number of households claiming the credit. This is primarily an indication that the average credit taken by married filing jointly is higher than other filing types. A higher credit for taxpayers filing as married or head of household is expected because the credit limit is adjusted for dependents.

Also included in Table 2 is the average credit per exemptions for each file type. Taxpayers are allowed to claim one exemption for themselves, one exemption for their spouse (unless filing separately on a different form), and one exemption for each dependent. Additional exemptions are allowed for taxpayers and dependents that are 65 or older and disabled. Section 1 (2) of HB270 adjusts the credit amount for the size of the household based on the number of dependents. The average credit per exemption may provide some insight of whether HB270 would achieve the results intended.

Table 2: Credit Taken by File Type, Tax Year 2005						
File Type	Single	Married Filing Jointly	Married Filing Separately on Same Form	Married Filing Separately on Different Form	Married, Spouse not Filing	Head of Household
Cost of Credit	860,707	22,653,600	13,050,561	975,821	136,498	2,819,440
Number of Households Claiming the Credit	33,534	33,492	26,471	1,634	240	4,944
Average Credit	320	676	493	597	569	570
Average Credit per Exemption	225	216	169	434	402	251
% of Cost	2.1%	55.9%	32.2%	2.4%	0.3%	7.0%
% of Taxpayers taking the credit	33.4%	33.4%	26.4%	1.6%	0.2%	4.9%

Fiscal Impact of Section 1 by Category created in HB270, Section 1 (2)

Table 2 showed credit statistics by filing status. Committee members may also be interested in similar statistics by the categories created in Section 1 (2) of HB270. Table 3 provides those statistics. The average credit per household increases as dependents increase, while the average credit per exemption decreases as the number of dependents increases.

Table 3: Credit Taken by Category used in HB270, Tax Year 2005							
Dependents	Single	Married			Head of Household		
	0	0	1	2 or more	1	2	3 or more
Cost of Credit	10,829,831	24,281,210	4,475,531	8,059,739	1,706,511	786,648	217,171
Number of Households	33,894	41,123	7,923	12,791	3,021	1,248	315
Average Credit per Household	320	590	565	630	565	630	689
Average Credit per Exemption	226	225	188	143	277	207	164
% of Cost	21.5%	48.2%	8.9%	16.0%	3.4%	1.6%	0.4%
% of Households	33.8%	41.0%	7.9%	12.8%	3.0%	1.2%	0.3%

Fiscal Impact of Section 1 by Household Income

HB270 reduces the amount of the credit as income increases. Table 4 provides insight into the effectiveness of this provision by illustrating the fiscal impact of the credit by household income. As household incomes rise, both the average credit per household and average credit per exemption decreases.

Table 4: Credit Taken by Household Income				
Household Income Rounded to Nearest \$10,000	Credit Taken	Number of Households	Average Credit per Household	Average Credit per Exemption
Less than 0	1,139,890	1,680	679	283
0	1,887,796	3,496	540	259
10,000	7,384,714	14,276	517	249
20,000	10,744,568	18,829	571	250
30,000	9,505,645	17,346	548	246
40,000	8,139,989	15,948	510	207
50,000	5,920,190	12,994	456	170
60,000	3,957,942	10,820	366	125
70,000	1,675,906	4,926	340	115

SECTIONS 2 AND 3 CREDIT

The credit proposed in sections 2 and 3 is not estimated on taxpayer information because such information is not available. The credit is estimated based on data from the U.S. Census and the Bureau of Labor Statistics. Therefore, the fiscal impact cannot be broken down into classes similar to those used for the Section 1 credit. This section provides information on the fiscal impact of the proposed credit in sections 2 and 3 based on size of employer. Like the Section 1 credit, the fiscal impact is illustrated using 2005 data as if the proposed credit had been in place during 2005.

Table 5: Estimated Number of Establishments and Uninsured People Benefiting from the Proposed HB270, Section 2 and 3 Credit in 2005						
	Number of Establishments	Number of Employees	Number of Uninsured Employees	Number of Uninsured Spouses	Number of Uninsured Dependents	Cost of Credit
0-5 employees	23,047	36,299	18,150	10,363	8,211	38,156,886
5-9 employees	6,613	43,582	21,791	12,443	9,859	45,812,650
10 to 19 employees	<u>4,207</u>	<u>54,558</u>	<u>16,367</u>	<u>9,346</u>	<u>7,405</u>	<u>34,410,260</u>
Total	33,867	134,439	56,308	32,152	25,475	118,379,796

Table 5 shows the number of establishments and employees that would likely benefit from the credit proposed in HB270, broken down by size of employer. The first column shows the total number of small business establishments in Montana; the second column is the total number of employees employed by those establishments. Columns three, four, and five provide an estimate of the number of employees, spouses, and dependents that are currently uninsured and who may receive health insurance as a result of HB270. The cost of the credit is provided in the final column.